

Message Text

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PAGE 01 JAKART 06358 01 OF 03 160843Z POSS DUPE
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LIMITED OFFICIAL USE SECTION 1 OF 3 JAKARTA 6358

MANILA FOR USADB

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TAGS: EAID, ECON, ELAB, SOCI, SWEL, ID
SUBJECT: THE INCOME GAP PROBLEM IN INDONESIA

1. SUMMARY. TRANSMITTED BELOW ARE THE CONCLUSIONS OF A STUDY PREPARED BY AN EMBASSY OFFICER AND POUCHED TO THE DEPARTMENT WHICH ATTEMPTS TO DEFINE THE POLITICAL AND ECONOMIC DIMENSIONS OF INCOME DISPARITY IN INDONESIA, SUMMARIZES INDONESIAN GOVERNMENTAL AND PRIVATE EFFORTS TO NARROW THE INCOME GAP AND COMMENTS ON THE APPROPRIATE ROLE FOR FOREIGN ASSISTANCE. WHILE SOME MAY DISAGREE WITH THE RECOMMENDATIONS OF THIS STUDY, WE BELIEVE THE IMPORTANCE OF ITS SUBJECT MATTER MERITS ITS BEING BROUGHT TO THE ATTENTION OF THE DEPARTMENT AND OTHER INTERESTED AGENCIES. COMMENTS AND OTHER VIEWPOINTS WOULD BE WELCOMED. END SUMMARY.

2. DISPARITIES IN THE DISTRIBUTION OF THE REWARDS OF INDONESIA'S ECONOMIC DEVELOPMENT ARE A SIGNIFICANT AND
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PAGE 02 JAKART 06358 01 OF 03 160843Z POSS DUPE

GROWING POLITICAL PROBLEM FOR THE SUHARTO GOVERNMENT. THE ISSUE HAS LED OPPOSITION ELEMENTS TO REVIVE STATIST, AUTARKIC DOCTRINES FROM THE PAST, PROMPTED STUDENTS AND THEIR MENTORS TO TURN TO RADICAL SLOGANEERING, CONTRIBUTED TO THE NATIVIST INCLINATIONS OF CERTAIN SEPARATIST GROUPINGS, AND DEEPENED THE DISAFFECTION OF ELITE ELEMENTS TOWARD THE REGIME. WHILE NONE OF THESE FORCES POSES AN

IMMEDIATE THREAT TO THE REGIME OR TO THE WESTERN PRESENCE, THEIR INCREASING MOMENTUM HAS INSTILLED CONSIDERABLE ANXIETY WITHIN THE MILITARY-TECHNOCRAT ESTABLISHMENT AND GIVEN URGENCY TO STEPS TO LESSEN INCOME DISPARITY.

3. THE ECONOMIC DIMENSIONS OF THE PROBLEM ARE PERHAPS MORE DIFFICULT TO MEASURE THAN ITS POLITICAL RAMIFICATIONS, BECAUSE AVAILABLE STATISTICS (DERIVED PRINCIPALLY FROM HOUSEHOLD EXPENDITURE SURVEYS) ARE SUBJECT TO A WIDE VARIETY OF INTERPRETATIONS.

A. WHETHER THE NUMBER OF INDONESIANS BENEATH THE POVERTY LINE HAS DRAMATICALLY DECREASED, AS CLAIMED BY THEIR PRESIDENT, OR IN FACT REMAINED STATIC, AS ARGUED BY SOME ACADEMICIANS, IS STILL A SUBJECT OF DEBATE, BUT THE ANSWER IS PROBABLY EQUIDISTANT BETWEEN THESE TWO POSITIONS.

B. MACRO STUDIES OF INCOME DISTRIBUTION TEND IN THE AGGREGATE TO SHOW INCREASING INEQUALITY IN THE CITIES, A GROWING GAP BETWEEN URBAN AND RURAL AREAS. A MAJORITY OF RECENT MICRO ANALYSES INDICATE, ON THE OTHER HAND, THAT INCOME DISPARITIES HAVE ALSO INCREASED IN RURAL AREAS.

C. AN APRIL 1978 FINDING BY A WORLD BANK SURVEY TEAM THAT EMPLOYMENT HAS ABOUT KEPT PACE WITH GROWTH IN THE LABOR FORCE AND THAT REAL WAGES DO NOT SEEM TO HAVE FALLEN IS BEING HEATEDLY CONTESTED BY OTHER OBSERVERS AND SEEMS IN FACT QUESTIONABLE.

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PAGE 03 JAKART 06358 01 OF 03 160843Z POSS DUPE

D. PERHAPS THE SOUDEST GENERAL CONCLUSION TO BE DRAWN IS THAT INDONESIAN MANIFESTS "MODERATE" INCOME INEQUALITY COMPARED TO OTHER DEVELOPING COUNTRIES BUT THE GAP IS GROWING AND THE GENERAL LOW LEVEL OF INCOME MAKES EXISTING DISPARITIES CRITICAL.

4. TEN YEARS OF EXPERIENCE WITH ECONOMIC DEVELOPMENT HAVE LED INDONESIAN TO GIVE INCREASING ATTENTION TO LOCAL CULTURAL AND BUREAUCRATIC IMPEDIMENTS TO A WIDER SHARING OF GNP GROWTH. AMONG THESE ARE (A) A ZERO SUM CONCEPT OF POWER, WHICH CAN MAKE DEVELOPMENT OF INDEPENDENT REGIONAL CENTERS APPEAR TO BE DISINTEGRATION OF NATIONAL AUTHORITY, (B) HIGHLY PATERNALISTIC PRACTICES AT THE CENTER AND IN THE REGIONS, (C) OVER CENTRALIZATION AND INSULATION OF BUREAUCRACY, (D) WEAK LATERAL COORDINATION AND (E) VOLATILE RESENTMENT OF THE PREPONDERANT ETHNIC CHINESE ROLE IN THE BUSINESS AND BANKING WORLD. GOVERNMENT DEVELOPMENT PROGRAMS HAVE OCCASIONALLY TACKLED THESE PROBLEMS HEAD-ON, SOMETIMES SUCCESSFULLY SKIRTED THEM, BUT MOST OFTEN PAID THE COSTS OF LIVING WITH THEM.

5. THE GOVERNMENT ATTACK ON RURAL POVERTY HAS BROADENED WITH EXPERIENCE.

A. BY MAKING ACCESS TO DEVELOPMENT BUDGET FUNDS CONTINGENT IN PART ON PROJECTS DESIGNED TO REACH THE RURAL POOR, THE GOVERNMENT STIMULATED ITS LINE AGENCIES TO LAUNCH RURAL INFRASTRUCTURE, EXTENSION AND CREDIT PROGRAMS. BUREAUCRATIC IMPEDIMENTS PREVIOUSLY MENTIONED DID NOT PERMIT, HOWEVER, THE RAPID, BROAD RESPONSE FELT NECESSARY.

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PAGE 01 JAKART 06358 02 OF 03 160925Z
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INFO AMEMBASSY MANILA

LIMITED OFFICIAL USE SECTION 2 OF 3 JAKARTA 6358

B. THE NATIONAL PLANNING BUREAU CONSEQUENTLY DEVELOPED A "PRESIDENTIAL INSTRUCTION" SYSTEM WHICH BYPASSED BUREAUCRATIC LAYERS TO DELIVER ELEMENTARY SCHOOL BUILDINGS, HEALTH FACILITIES, MARKETS, AND FUNDS FOR LOCALLY CONCEIVED DEVELOPMENT PROJECTS DIRECTLY TO THE REGIONS. PRESIDENTIAL INSTRUCTION PROGRAMS HAVE SUCCEEDED IN CHANNELING CENTRAL GOVERNMENT INVESTMENT FUNDS RAPIDLY TO THE PROVINCES BUT HAVE NOT GENERATED THE LEVEL OF LOCAL EMPLOYMENT DESIRED AND HAVE NOT CREATED THE LOCAL INSTITUTIONS REQUIRED TO PROPERLY COORDINATE, MAINTAIN AND BUILD UPON THESE INITIAL INVESTMENTS.

C. A NEW PROVINCIAL DEVELOPMENT PROGRAM IS NOW BEING LAUNCHED WHICH WILL ATTEMPT TO MEET THESE DEFICIENCIES BY MOVING PLANNING AND DECISION MAKING TO THE REGIONS.

6. IF THE INDONESIAN GOVERNMENT IS TO BE FAULTED IN ITS RURAL DEVELOPMENT EFFORTS, IT IS LESS FOR NEGLECT THAN FOR EXPANDING LARGE AND INADEQUATELY TESTED PROGRAMS BEYOND

LOCAL MANAGERIAL CAPACITY AND CULTURAL TOLERANCE.

A. THIS REACTION SEEMS ATTRIBUTABLE PARTLY TO
POLITICAL PRESSURES FOR MOUNTING PROGRAMS SIMULTANEOUSLY
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PAGE 02 JAKART 06358 02 OF 03 160925Z

IN ALL PROVINCES AND PARTLY TO THE CENTRAL GOVERNMENTS'S
SENSE OF URGENCY. AS A RESULT, A NUMBER OF AMBITIOUS AND
SOMETIMES QUITE IMAGINATIVE PROGRAMS IN THE FIELDS OF
RURAL CREDIT (A SMALL BUSINESS LOAN PROGRAM AND
COLLATERAL-FREE MINI-LOANS TO PEDDLERS AND OTHERS IN THE
INFORMAL SECTOR ARE EXAMPLES), EXTENSION SERVICES (THE
BUTSI JOB CORPS AND LOCAL INDUSTRY SERVICE CENTERS ARE
EXAMPLES) AND INSTITUTION BUILDING (THE BUDD/KUD
COOPERATIVE STRUCTURE AND VILLAGE SOCIAL INSTITUTES ARE
EXAMPLES) HAVE LIKE OVER-FERTILIZED TRANSPLANTS EITHER
FAILED TO TAKE OR FLOWERED PROFUSELY AND COLLAPSED WITH-
OUT FRUIT.

B. IN FAIRNESS TO THE GOI, HOWEVER, IT SHOULD BE
NOTED THAT INDONESIAN POLICY MAKERS FACE A BASIC DILEMMA
WHICH FEW OTHER DEVELOPING NATIONS HAVE YET RESOLVED:
HOW TO USE EXISTING HIERARCHIAL, AUTHORITARIAN STRUCTURES
TO STIMULATE SOCIAL CHANGE IN A LARGELY PASSIVE, TRADI-
TIONALIST SOCIETY WHILE AT THE SAME TIME PREVENTING LOCAL
OFFICIALDOM FROM REINFORCING THE TRADITIONAL DEPENDENCY
OF THE FURAL POPULATION OR USURPING THE BENEFITS OF
DEVELOPMENT PROGRAMS. THE NASCENT PROVINCIAL DEVELOPMENT
PROGRAM MAY OFFER THE MEANS TO EXPLORE NEW APPROACHES TO
THIS PROBLEM.

7. INDONESIAN UNIVERSITIES AND PRIVATE INSTITUTIONS ARE
MAKING SOME OF THE MOST EXCITING CONTRIBUTIONS TOWARDS
UNDERSTANDING AND RESOLVING THE INCOME GAP PROBLEM. THEIR
SURVEYS, WHICH INCORPORATE A VARIETY OF TECHNIQUES, HAVE
PROVIDED PERHAPS THE MOST RELIABLE FEEDBACK ON THE EFFECTS
OF DEVELOPMENT EFFORTS AND SOME VALUABLE GLIMPSES INTO
NEW METHODS WHICH MIGHT BE EMPLOYED. THEY HAVE ALSO
MOUNTED A NUMBER OF SMALL BUT VENTURESOME DEVELOPMENT
PRJECTS. PRIVATE DEVELOPMENT EFFORTS SEEM TO BE BETTER
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PAGE 03 JAKART 06358 02 OF 03 160925Z

INTEGRATED IN MANY RESPECTS THAN THOSE OF THE GOVERNMENT
WITH UNIVERSITY, PRIVATE BUSINESS, MUSLIM AND CHRISTAIN ORGANIZA-
TIONS EXCHANGING INFORMATION AND EXPERTISE ON A REGULAR
BASIS.

8. BECAUSE DEVELOPED NATIONS PARTICIPATING IN THE FREE

MARKET SYSTEM ARE OFTEN POPULARLY IDENTIFIED WITH THE INCOME DISPARITIES WHICH HAVE ACCOMPLISHED INDONESIA'S RAPID GROWTH IN GNP, IT IS IMPORTANT FOR POLITICAL AS WELL AS HUMANITARIAN REASONS THAT THEY BE ASSOCIATED WITH EFFORTS TO NARROW THE INCOME GAP. USAID SUPPORT FOR THE LABOR-INTENSIVE RURAL WORKS PROGRAM, SMALL-SCALE IRRIGATION, FAMILY PLANNING (WHICH HAS HAD AN INTERESTING SPIN-OFF IN THE FORM OF PRODUCTION COOPERATIVES), AND INTEGRATED DEVELOPMENT PROJECTS HAS HELPED BUILD THIS ASSOCIATION. PLANNED RURAL ELECTRIFICATION AND PROVINCIAL DEVELOPMENT PROGRAMS MAY OPEN A NUMBER OF NEW POSSIBILITIES FOR RURAL DEVELOPMENT WHICH ARE A SYET UNEXPLORED. APPROPRIATE TECHNOLOGY AND OTHER PROGRAMS CONDUCTED IN ASSOCIATION WITH UNIVERSITY DEVELOPMENT CENTERS OFFER AN INDIRECT MEANS OF SUPPORTING PROMISING PRIVATE EFFORTS. USAID IS ALSO EXPLORING THE POSSIBILITY OF HELPING TO DEVELOP ENTREPRENEURIAL TALENT IN THE SMALL BUSINESS SECTOR. OF PRIME IMPORTANCE IS THE PLANNED INCREASE IN U.S. PARTICIPANT TRAINING SINCE THE KEY MOVERS OF GOVERNMENT AND PRIVATE DEVELOPMENT PROGRAMS INVARIABLY PROVE TO HAVE OBTAINED THEIR EXPERTISE AND, MORE IMPORTANT, THEIR MOTIVATION FROM CONTACT WITH WESTERN NATIONS.

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PAGE 01 JAKART 06358 03 OF 03 160924Z
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LIMITED OFFICIAL USE SECTION 3 OF 3 JAKARTA 6358

9. WHILE PRESENT AND PROJECTED U.S. BILATERAL ASSISTANCE CAN BE COMFORTABLY ABSORBED, THERE WOULD BE HEAVY POLITICAL, ECONOMIC AND, EVENTUALLY, HUMANITARIAN COSTS TO CHANNELING MOST BILATERAL AND MULTILATERAL ASSISTANCE

INTO PROJECTS DIRECTLY MEETING HUMAN NEEDS CRITERIA. THE BURDEN OF DEVELOPING THE LESS POLITICALLY REWARDING INFRASTRUCTURE WOULD BE PLACED ON THE GOI WITHOUT DIMINISHING THE COSTS OF HUMAN NEEDS PROGRAMS, SINCE FOREIGN ASSISTANCE PROJECTS SELDOM REPLACE AND FREQUENTLY GENERATE LOCAL BUDGETARY EXPENDITURES. THE INDONESIAN TENDENCY TO IMPLEMENT NATION-WIDE, INADEQUATELY TEST AND OVERLY AMBITIOUS PROJECTS WOULD PROBABLY INCREASE. THE DEMAND ON INDONESIA'S SCARCEST RESOURCE, MANAGERIAL EXPERTISE, WOULD BE ESCALATED IN AREAS WHERE FOREIGN EXPERTS OFTEN CANNOT SAFELY TREAD. FINALLY, AND PERHAPS MOST IMPORTANT, A SHIFT OF INVESTMENT FROM INFRASTRUCTURE PROJECTS COULD DANGEROUSLY AFFECT THE NATION'S CAPABILITY OF PROVIDING FOR ITS LONG-TERM FOOD NEEDS, NOW FINANCED BY DIMINISHING PETROLEUM EXPORTS.

10. IN SUMMARY, GOI EFFORTS TO REDUCE INCOME DISPARITIES LIMITED OFFICIAL USE

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PAGE 02 JAKART 06358 03 OF 03 160924Z

ARE GREATER THAN MOST OF ITS CRITICS WILL ADMIT OR MANY OF ITS FRIENDS REALIZE. A FEW HAVE MET WITH ENCOURAGING SUCCESS, MORE HAVE THUS FAR FALLEN SHORT OF THEIR GOALS, BUT ALL HAVE ADDED HIGHLY VALUABLE KNOWLEDGE AND EXPERIENCE TO WHAT IS PERFORCE A DIFFICULT LEARNING PROCESS. THE GOI CAN USE MORE FOREIGN SUPPORT IN THIS AREA AND IT MIGHT NEED AN OCCASIONAL PUSH. RECENT EXPERIENCE SUGGESTS, HOWEVER, THAT THE PACE OF RURAL DEVELOPMENT SHOULD NOT BE UNDULY FORCED WITHER BY AN INDONESIAN SENSE OF URGENCY OR BY A MASSIVE SHIFT OF FOREIGN ASSISTANCE FUNDS TO PROJECTS MEETING NARROWLY DEFINED HUMAN NEEDS CRITERIA. IT IS PARTICULARLY IMPORTANT THAT THE FOCUS ON THE INCOME GAP ISSUE NOT DISTRACT ATTENTION FROM INDONESIA'S MOST PRESSING PROBLEM, WHICH IS FINDING THE MEANS OF MEETING ITS POPULATION'S FOOD NEEDS. MASTERS

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